

Editorial Perspective:
Payment Industry Trends in 2014



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Following a period of relative inaction in the payments industry caused by uncertainty on the economic, regulatory, and technological fronts, 2014 has come out of the blocks fast by comparison. Yet with so much happening in fields as diverse as payments security, the mobile arena, and emerging technologies such as EMV and mobile wallets it can be a challenge for credit unions to separate the signal from the noise in determining which issues to prioritize.

Build your priorities around these trends

Economic indicators are improving and growth prospects in both credit and debit look brighter for 2014 than they have in the past few years.

The legal and regulatory climate for both credit and debit will be relatively stable during the coming year. Select retailers are appealing the credit card interchange settlement and appellate courts are conducting hearings on Regulation II of the Durbin Amendment, which impacts debit card interchange. No new legislation is anticipated; however, some new political attention has arisen in the wake of the recent Target data breach.

The pace of technological innovation will shake out some winners and losers. In 2014, issuers will spend significant time investigating and understanding various technology solutions with respect to their card programs. While some may have an “if it ain’t broke, why fix it” mentality toward payments, the reality is that credit unions must invest the time to keep up with the latest changes in the marketplace to keep on par or ahead of larger issuers while simultaneously gauging the expectations of their members.

Given these broad trends, here is how your credit union can expect to see them play out across these specific areas.

Credit and debit card momentum

Driven by continued economic recovery, rebounding consumer confidence, sustained low interest rates and the settling of the regulatory and political environment, growth prospects for both credit and debit cards look better for 2014 than they have in the past few years.

We look for cards to accelerate growth in 2014 and expect organic growth in spending on all cards to grow, particularly in terms of discretionary spend that may have been deferred during the recession.

We believe that a massive opportunity exists for credit unions to transition check and cash transactions to debit, as highlighted by the recently released 2013 Federal Reserve Payments Study indicating that 1.3 billion check payments were made at the point-of-sale in 2012.

EMV anti-fraud program status

With only 20 months until the October 2015 liability shift, there appears to be an uneven trajectory of implementation for both retailers and issuers. Using the Canadian EMV rollout as an example, it is estimated to have taken 10 years to reach full saturation point.

We believe that as long as the industry continues to operate without an EMV mandate and anticipates added cost, complexity and consumer impact, the implementation of EMV in the United States may continue at an elongated pace.

However, events such as the recent data breach at Target may cause both issuers and merchants alike to escalate the pace of implementation. Political involvement can end up driving a mandate but could also impact issuer preferences, previous regulatory rulings, consumer confusion and time lines.

The prevalence of multiple debit PIN networks, coupled with the U.S. District Court ruling requiring multiple networks by transaction type is further complicating the matter.

Mobile wallets

Mobile wallets will be in the spotlight in 2014 as payments networks, merchants, wireless companies and others develop and refine their offerings. To move past the initial wave of early adopters and to reach a tipping point, the carrot for these stakeholders is access to some very rich data. But for mobile wallets to take off, the stakeholders need to do a better job of convincing consumers of the value added.

Ironically, the industry has invested decades' worth of education and incentives to make consumers comfortable with plastic card usage and those highly successful efforts may prove difficult and expensive to reverse.

Mobile wallet applications will need to be accepted universally and offer security features that meet or beat those that are offered with plastic cards. This becomes even more critical as consumer awareness of security breaches is heightened by the recent data breach at Target and other merchants.

Because many consumers are happy using their plastic cards, emphasis will need to be made on value-added features that come with mobile payments, such as incremental convenience, discount offers, rewards, in addition to the coolness factor.

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